

# Citizens Electoral Council of Australia

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Independent Political Party

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## How real is Commbank's \$9 bn profit?

Commbank's record profit announcement is reminiscent of underworld figure Tony Mokbel's claim that his huge income was winnings from the race track.

Ask yourself: what is the condition of the Australian economy, from which Commbank has extracted this profit?

\* The prices of iron ore and coal, the commodities that have provided Australia's main national income in the last decade or more, are plunging, on the back of which the mining centres of Western Australia and central Queensland have been hit with massive job losses and business closures.

\* Australian manufacturing is in sharp decline: major aluminium smelters and oil refineries have shut down, and car parts suppliers are closing shop ahead of next year's final shutdown of the car industry, the backbone of Australian manufacturing for many decades.

\* Official unemployment is rising, up from 6 per cent in June to 6.3 per cent in July; aggregate hours worked by Australians in that month decreased by 3.4 million. Actual unemployment, including underemployment, is many percentage points higher than the official figures. Anecdotal reports indicate major unemployment in Western Australia, South Australia and Queensland caused by the mining and manufacturing crashes that isn't reflected in the official figures, one reason being that as most miners are employed as contractors with their own ABN, it is difficult for them to be able to register as unemployed when they lose their jobs.

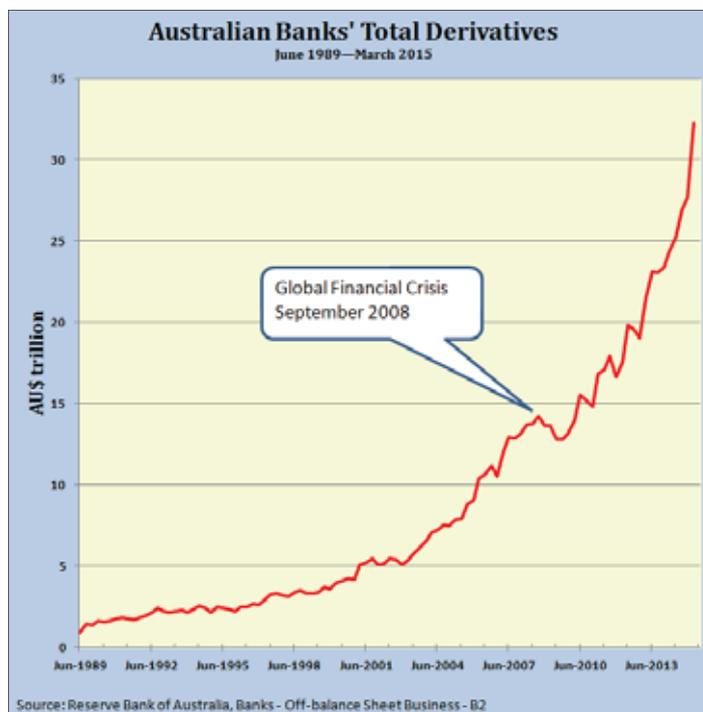
That's just a snap shot. Each Australian will have their own experiences that are symptoms of a rapidly worsening real economy. Yet the Big Four banks, with CBA in the lead, are on a run of record profits. How can this be?

Only two economic/financial indicators match the banks' profit growth: the housing markets in Sydney and Melbourne, and the enormous increase in the Australian banks' derivatives gambling.

The two are interconnected: the housing markets in Sydney and Melbourne are so disconnected from reality, including the harsh reality that the plunging markets in places such as Perth are now experiencing, that the banks' lending into the Sydney and Melbourne markets is the equivalent of gambling.

Such mortgage lending is highly profitable, because mortgage loans are considered to be the least risky and the banks are therefore required to hold very little capital against them, even though the more they lend, the more they inflate the property bubble, and the more the risk increases. The market is now poised like the snowcap on a mountain, waiting for rising unemployment or a rise in interest rates to set off an avalanche.

To "hedge" the growing risk, which for a banker means to deny to yourself that it exists, the banks have embarked on a frenzy of derivatives speculation, which has seen the combined Australian banks' total off-balance-sheet exposure effectively double since the September 2008 GFC, from slightly less than \$14 trillion to now \$32 trillion. Derivatives are the toxic financial betting instruments that melted down the global financial system in 2008. In his 1997 book *FIASCO: Blood in the Water on Wall Street*, former Morgan Stanley derivatives



trader Frank Partnoy presciently warned of the danger of derivatives, and exposed them as instruments of fraud that could be used to hide losses, and make losses appear to be profits for a period of time.

In 2012, the CBA suddenly stopped disclosing the full face-value of its derivatives exposure, which in the previous years had dramatically skyrocketed at the same time as its profits took off. This decision by CBA, Partnoy's characterisation of derivatives, and the discrepancy between the banks' profits and the rest of the Australian economy, raises the question: how much of CBA's profits are due to derivatives-related "accounting"? The same question goes for the other banks.

Australia desperately needs a financial system that is not a casino, but serves the real economy on which the people of Australia depend. To achieve this, the CEC has long proposed:

\* a thorough investigation of the banks, along the lines of the successful 1933 US Pecora Commission into Wall Street which sent bankers to jail and catalysed Franklin Roosevelt's banking reforms;

\* a full Glass-Steagall separation of retail banking that services the community, from speculative investment banking, a policy now being championed by Democratic Party presidential pre-candidates Martin O'Malley and Bernie Sanders in the US, and UK Labour Party leadership front-runner Jeremy Corbyn in Britain;

\* and a National Bank, like the original Commonwealth Bank, owned and controlled by the elected government, which will direct credit into infrastructure and the productive areas of the economy (also a Corbyn policy, and the subject of fierce debate in the UK).

To fight for these policies, join the CEC.

# PETITION

## Australia must secure its future by aligning with the BRICS in a new, just world economic order

### TO THE HONOURABLE THE SPEAKER AND MEMBERS OF THE HOUSE OF REPRESENTATIVES

This petition of the Citizens Electoral Council draws to the attention of the House the opportunity for Australia, and all nations, to participate in the process that the BRICS nations of Brazil, Russia, India, China, and South Africa have initiated: to create a new financial architecture for the world based on equitable and inclusive multilateral credit institutions that prioritise investment in physical economic development, instead of speculation.

The present, inequitable IMF-World Bank system is collapsing under the burden of hundreds of trillions of dollars of unpayable global debts and derivatives obligations, including the Australian banking system's derivatives exposure of more than \$27 trillion. This is the legacy of decades of reckless financial speculation unleashed by IMF-enforced deregulation, and is the driver of the world's present strategic tensions

which have increased the threat of a thermonuclear world war.

Through such new financial institutions as the \$100 billion New Development Bank, the \$100 billion Asian Infrastructure Investment Bank (AIIB), the \$40 billion Silk Road Development Fund, the \$20 billion Maritime Silk Road Fund, and the planned Shanghai Cooperation Organization (SCO) bank, the BRICS nations will direct massive investment in much-needed physical infrastructure projects on which all nations can collaborate, forging a basis for lasting global peace and economic prosperity.

We the undersigned therefore petition the House to commit Australia both to full participation in the AIIB, and to full support for the BRICS-initiated process of creating a new financial architecture for the world as the basis of a just economic order.

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